

## Message Text

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ACTION NEA-12

INFO OCT-01 AF-10 EUR-25 ISO-00 SS-20 TRSE-00 COME-00

FRB-02 AID-20 CEA-02 CIAE-00 CIEP-02 DODE-00 EB-11

FEA-02 FPC-01 H-03 INR-10 INT-08 L-03 NSAE-00 NSC-10

OMB-01 PM-07 RSC-01 SAM-01 SCI-06 SPC-03 STR-08 PA-04

USIA-15 PRS-01 OPIC-12 XMB-07 DRC-01 IO-14 /223 W

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R 240710Z FEB 74

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC 8847

INFO AMEMBASSY ABU DHABI

AMEMBASSY AMMAN

AMEMBASSY BEIRUT

AMEMBASSY JIDDA

AMEMBASSY LONDON

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

USMISSION OECD PARIS

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BEIRUT PASS DAMASCUS AND BAGHDAD

DEPT PASS ARAB/OPEC/OECD CAPITALS

AND TO TREASURY, COMMERCE,

FRB

STATE ALSO FOR T/IEP

EO 11652: NA

TAGS: EFIN, XF, XX

SUBJ: ARAB SURPLUS FUNDS SEMINAR

REF: KUWAIT 0650

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SUMMARY: WELL ATTENDED THREE DAY SEMINAR ON SURPLUS FUNDS HERE

SHOWED GENERAL AWARENESS AMONG REPRESENTATIVES OF BOTH SURPLUS AND DEFICIT STATES THAT SUDDEN TREMENDOUS INCOMES OF SIX MAJOR ARAB OIL EXPORTING COUNTRIES CONSTITUTES POLITICAL AND ECONOMIC "CHANCE OF A LIFETIME" BUT IT ALSO IMPOSES GREAT RESPONSIBILITIES ON SURPLUS COUNTRIES TO USE MONEY SENSIBLY. IN GENERAL THERE WAS AGREEMENT THAT MONEY SHOULD BE USED FIRST FOR LOCAL (E.G. SAUDI OR KUWAITI) DEVELOPMENT, SECOND FOR AID TO OTHER ARAB STATES, THIRD TO LDCS AND FINALLY AS INVESTMENTS IN TRADITIONAL FINANCIAL MARKETS. NEVERTHELESS, IT WAS STRESSED THAT NEW CONDITIONS OBTAINED REQUIRING GREATER EQUALITY AND RECOGNITION FOR SURPLUS ARAB STATES IN INTERNATIONAL FINANCIAL AFFAIRS. DURING CONFERENCE SOME NEW IDEAS WERE FLOATED AND IT WAS REVEALED THAT MAJOR NEW PETROLEUM INVESTMENT COMPANY IS TO BE FOUNDED BY OAPEC AND THAT INTER-ARAB INVESTMENT GUARANTY CORPORATION ABOUT TO BEGIN OPERATIONS SOON. OTHER RELATED MEETINGS ON OIL AND MULTINATIONAL COMPANIES AS WELL AS A SECOND CONFERENCE ON MONETARY MATTERS ARE BEING SCHEDULED TO TAKE PLACE DURING 1974. EMBASSY BELIEVES PARTICIPATION BY SAUDI OFFICIALS WWS PARTICULARLY NOTEWORTHY. END SUMMARY

1. MORE THAN 200 ECONOMISTS FROM ARAB COUNTRIES, EUROPE, JAPAN, AND THE UNITED STATES MET FOR THREE DAYS FEB 18, 19, AND 20, IN KUWAIT TO DISCUSS SURPLUS REVENUES OF OIL PRODUCING COUNTRIES. IN SEVEN SESSIONS INAUGURATED BY CROWN PRINCE/PRIME MINISTER SHEIKH JABER AL-AHMAD AL-JABER AL-SABAH OF KUWAIT, ROLE OF ARAB SURPLUS FUNDS IN THE MONEY AND CAPITAL MARKETS IN THE WORLD AND ESTIMATES OF THE EXPECTED OIL REVENUES AND ABSORPTION CAPACITY OF ARAB STATES FOR DEVELOPMENT WERE DISCUSSED. IN ADDITION TO OBSERVERS FROM STATE, COMMERCE, TREASURY, FRB/NEW YORK AND EMBASSIES JIDDA AND KUWAIT, US PARTICIPANTS INCLUDED PROFESSORS FROM COLORADO AND RUTGERS WHO WERE AMONG FORMAL SPEAKERS. SOME

BUSINESSMEN, IMF AND IBRD REPS WERE ALSO PRESENT.

2. DURING INITIAL SESSION FOLLOWING OPENING BY KUWAIT PM (REFTEL, NOTAL), KFAED DIRECTOR ABD AL-LATIF AL-HAMAD DEFINED MAJOR ISSUES AS FOLLOWS:

A. WILL THERE BE SURPLUSES; IF SO, HOW MUCH AND WHERE?

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B. WHAT IS NATURE OF PROBLEM: SHORT, MEDIUM OR LONG TERMS?

C. SCENE HAS SHIFTED TO PRODUCING GOVERNMENTS WITH INTERNATIONAL OIL COMPANIES BEING SQUEEZED OUT. WHAT NEW INSTITUTIONS SHOULD REPLACE COMPANIES AND SERVE GOVERNMENTS?

D. WHAT NEW CRITERIA FOR DEVELOPMENT MUST BE DETERMINED? IT WILL

BE NECESSARY TO MAINTAIN VALUE OF ASSETS INVESTED AND ENHANCE THE DEVELOPMENT PROSPECTS FOR ARAB/LDC STATES.

E. NEW PRICE ISSUES EXIST. HOW CAN PRODUCERS GAIN A FAIR PRICE FOR OIL, INFLATION BE COMBATTED AND INTERNATIONAL ECONOMIC EQUILIBRIUM BE MAINTAINED?

F. ATTENTION MUST BE PAID TO RESEARCH IN AREAS OF ALTERNATIVE SOURCES OF ENERGY, WATER AND ECONOMIC INSITUATIONS. AL-AMAD STRESSED THAT COOPERATION BETWEEN PRODUCERS AND MULTINATIONAL COMPANIES MIGHT OFFER SOLUTIONS TO SUCH PROBLEMS.

3. THE EXPECTED OIL REVENUES WERE ESTIMATED BY ECONOMISTS DURING THE NEXT 10 YEARS FOR 6 ARAB PRODUCING COUNTRIES AS REACHING \$750 BILLION. PROJECTED SPENDING WOULD NOT EXCEED \$350 BILLION AND THIS FIGURE WAS USED AS A BENCHMARK FOR ALL OF THE DISCUSSIONS. IT WAS AGREED THAT THE ARAB COUNTRIES COULD NOT ABSORB SUCH A FIGURE AND SEVERAL PAPERS DISCUSSED MEANS OF INCREASING THE INDUSTRIALIZATION AND IMPROVING THE AGRICULTURAL POSSIBILITIES OF THE ARAB WORLD. REGIONAL COOPERATION AND JOINT ENTERPRISES WERE DISCUSSED IN DETAIL AND POSSIBLE IMPROVEMENT OF THE INVESTMENT CLIMATE IN SUCH COUNTRIES AS EGYPT WERE DISCUSSED AT LENGTH BY THE ARAB HEAD OF THE INTERNATIONAL BANK, NAZNY ABDELHAMID.

4. SOME INGENIOUS IDEAS WERE DEVELOPED BY BOTH AMERICAN AND OXFORD TRAINED ECONOMISTS INCLUDING INDEXED BONDS AND AN INTERNATIONAL

UNIT TRUST FOR STABILIZING PORTFOLIOS OF THE ARAB COUNTRIES. IN SUMMARIZING DISCUSSIONS ON MONETARY MATTERS, THERE WAS CLEAR DISAGREEMENT ON THE QUESTION OF INTERNATIONALIZATION OF FUNDS FOR USE OF SURPLUSES WITH MANY OPINIONS BEING EXPRESSED THAT IT WAS BETTER TO LEAVE THE FUNDS IN ARAB HANDS.

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5. RE QUESTION OF HELPING THIRD WORLD COUNTRIES (SO-CALLED "NOPEC"), SEVERAL PARTICIPANTS SUGGESTED THAT IT WOULD BE GOOD STRATEGY FOR ARABS TO FIND A MEANS TO PICK UP ALL OR MOST OF THE \$10 BILLION ADDED OIL BILL AS A MEANS OF GAINING POLITICAL SUPPORT FOR MAINTAINING HIGHER OIL PRICES AND "BUY OFF THE OPPOSITION OF THE THIRD WORLD". IT WAS ALSO AGREED THAT IT WOULD HELP TO DIVERSIFY ARAB INVESTMENTS TO PLACE SOME OF THE SURPLUS FUNDS IN THE THIRD WORLD.

6. OPEC SECRETARY GENERAL DR. ALI ATIQA REVEALED THAT MAJOR PETROLEUM INVESTMENT COMPANY ABOUT TO BE FORMED UNDER THAT UNCLASSIFIED

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ORGANIZATION. ATIQA SAID THAT FINAL AGREEMENT ON NEW PETROLEUM COMPANY AIMED AT INVESTING IN THE PETROCHEMICALS AND REFINERY INDUSTRIES IN ARAB EXPORTING COUNTRIES HAD BEEN MADE TWO WEEKS AGO IN JIDDA. HE ESTIMATED THAT REFINERIES ALONE BEING DISCUSSED WOULD REQUIRE \$6 BILLION IN INVESTMENT AND THE PETROCHEMICALS INDUSTRIES WOULD BE IN THE "TENS OF BILLIONS". OPEC ECONOMIST MOHAMMAD TAHIR LATER INFORMED U.S. OBSERVER THAT NO DECISION HAD BEEN MADE TO INCLUDE EXPLORATION NEW SOURCES OF PETROLEUM IN

OBJECTIVES OF THE COMPANY BUT THAT PRACTICALLY ALL OTHER PETROLEUM RELATED INDUSTRIES WERE BEING CONSIDERED.

7. THE SHARPEST DIVERSION IN APPROACH BECAME CLEAR WHEN DISCUSSIONS TURNED TO USING SURPLUS FUNDS IN ARAB COUNTRIES WHERE INVESTMENT CLIMATE HAS BEEN POOR. HOWEVER, THERE WERE ONLY NOMINAL REFERENCES TO PUBLIC VS. PRIVATE SECTOR INVESTMENTS DESPITE PRESENCE OF PUBLIC SECTOR EGYPTIAN AND SYRIAN ECONOMISTS AND OFFICIALS. ONE SPEAKER SAID INTER-ARAB INVESTMENT GUARANTY CORPORATION WILL BEGIN OPERATION IN TWO MONTHS.

8. SAUDI OBSERVERS INCLUDED DEPUTY MINISTER FINANCE A.A. RASHID AND SAMA FOREIGN EXCHANGE CHIEF AHMAD ABDULATIF. THE LATTER SUGGESTED AT ONE POINT THAT SAUDI ARABIA WAS INTERESTED IN SEEING A NEW INTERNATIONAL MONETARY ORGANIZATION WITH SOME OF THE CHARACTERISTICS OF THE IMF AND THE BANK OF INTERNATIONAL SETTLEMENTS.

9. ORGANIZERS OF THE SEMINAR WHICH WAS PARTLY FUNDED BY UN ECONOMIC COMMISSION FOR WEST ASIA AND THE ARAB PLANNING INSTITUTE, ARE ALREADY ORGANIZING A SECOND AND THIRD SEMINAR ON RELATED TOPICS ON ALL FACETS OF PETROLEUM INCLUDING PRODUCTION PROGRAM FOR TRIPOLI IN APRIL, AND ANOTHER ON MULTINATIONALS AND DEVELOPMENT IN BEIRUT IN JULY.

10. COMMENT: MEETING WAS WELL-HANDLED BY KUWAITI ORGANIZERS AND DISCUSSIONS IN GENERAL WERE CONDUCTED IN CALM, PROFESSIONAL MANNER WITH POLITICAL COMMENTARY KEPT TO MINIMUM. NONETHELESS, SOME SPEAKERS NOTED POLITICAL IMPLICATIONS OF ARAB WEALTH WITH OPEC SYG ATIQA ARGUING THAT ARABS SHOULD CONTRIBUTE LARGER AMOUNTS AND THEREFORE GAIN GREATER POLITICAL INFLUENCE IN IMF, IBRD, UNDP, ETC. AS MIGHT HAVE BEEN EXPECTED, REPRESENTATIVES FROM UNCLASSIFIED

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DEFICIT COUNTRIES URGED THAT GREAT PORTION OF SURPLUS FUNDS BE SPENT IN ARAB WORLD WHILE KUWAITIS, SAUDIS AND REPRESENTATIVE OF ABU DHABI FUND, WHILE ACCEPTING MORAL OBLIGATION TO DO SO, ALSO RESERVED RIGHT INVEST EITHER AT HOME OR IN TRADITIONAL INTERNATIONAL FINANCIAL MARKETS. EMBASSY KUWAIT BELIEVES BOTH IN ORGANIZING SEMINAR AND IN REMARKS DURING SEMINAR KUWAITIS OR NON-KUWAITIS ASSOCIATED WITH KUWAITI ORGANIZATIONS REVEALED EXISTENCE HERE OF SOMEWHAT GREATER AWARENESS OF ISSUES INVOLVED THAN ELSEWHERE IN ARAB WORLD. ON OTHER HAND, AS INDICATED IN PARA 8, SAUDIS ALSO PLAYED USEFUL ROLE AT SEMINAR. FYI ONE COULD ALMOST FEEL INTENSITY OF INTEREST OVER WHAT SAUDI OFFICIAL SAID COMPARED TO REMARKS OF PROFESSORS FROM EGYPT OR LEBANON. END FYI. BELIEVE SAUDIS MAY HAVE GAINED USEFUL INSIGHTS FROM EXPOSURE TO VARIETY OF VIEWS AND IN THIS REGARD BELIEVE SAUDI PARTICIPATION WAS USEFUL. IN GENERAL SEMINAR WAS USEFUL IN PROVIDING FIRST

BROAD DISCUSSION AMONG MANY ARABS TOGETHER WITH OTHERS OVER  
SURPLUS FUNDS ISSUES SINCE JANUARY PRICE RISES.  
STOLTZFUS

NOTE BY OC/T: NOT PASSED ARAB/OPEC/OECD CAPITALS.

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## Message Attributes

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